

Michigan

Alternative Filing Programs Handbook for Tax Preparers

Tax Year 2003



www.MIfastfile.org
www.Michigan.gov/sbtefile

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CHAPTER 1 GENERAL INFORMATION

IMPORTANT ADDRESSES AND TELEPHONE NUMBERS

Michigan e-file (electronically filed) publications and forms are available on Michigan Department of Treasury's Web site at www.MIfastfile.org. If you have questions about the e-file program, you may contact Alternative Filing Programs at:

Nancy Agostini or Scott Bunnell (517) 636-4450
Alternative Filing Programs (517) 636 4444 (Fax)
Michigan Department of Treasury
Lansing, Michigan 48922

Deaf, hearing- or speech-impaired (517) 636-4999 (TTY only)
MIefile2D@michigan.gov
www.MIfastfile.org

This contact information is for **tax preparers and software developers only** and enables Treasury to provide better services to authorized e-file providers. The Alternative Filing staff is unable to provide return status information or address specific taxpayer account issues. Should an error occur on the Michigan return during mainframe processing, Treasury will communicate directly with the taxpayer through the Department's regular error resolution process. Treasury will, however, discuss return situations with the preparer if the appropriate authorization box has been completed on the return.

Staff is available Monday through Friday, 8 a.m. to 5 p.m. EST, except state holidays. When leaving a phone message, give as much detail as possible so that Alternative Filing staff can research the question(s) and have the answer(s) ready when they call back. Speak clearly and spell any difficult names.

When sending an e-mail, include one of the following in the subject line to expedite routing and responding to your inquiry in a timely manner:

General

For general information about the alternative filing programs.

IIT e-file

For information regarding e-file of Individual Income Tax (IIT) Returns.

SBT e-file

For information regarding e-file of Single Business Tax (SBT) Annual Returns.

Treasury does not recommend sending account-specific information over the Internet. Federal and state disclosure laws require that taxpayer privacy and the confidential records that are filed with the Department are protected. Therefore, Treasury will not send account-specific information over the Internet in response to an e-mail inquiry.

Internet for Tax Preparers - www.michigan.gov/iit

Treasury provides Self-Service to customers via the Web. Access the Treasury Web site to:

- Check the date Treasury is currently processing returns
- Ask Treasury a question
- Check if a refund has been issued and when, for the current year and three prior years.
- Request copies of returns filed
- Order copies of current and prior year tax forms
- Check estimated payments.

To access these service options for **Individual Income Tax** go to www.michigan.gov/iit.

Note: To obtain return information using the “Internet Services” options, the primary filer’s Social Security number and adjusted gross income or household income are needed.

To access these service options for **Single Business Tax**, go to www.michigan.gov/bus tax.

Note: To obtain return information using the “Internet Services” options, the filer’s Federal Employer Identification number (FEIN) or Treasury (TR) number, gross receipts and organization type must be entered.

Now available on Treasury’s Web site at www.MIfastfile.org is the new feature **E-file Alerts**. E-file Alerts will provide updates and important information throughout the year. Access this site for handbook updates, status of acknowledgments or important reminders.

IIT and SBT Customer Contact Center

IIT taxpayers who do not have Internet service should call the Customer Contact staff at 1-800-827-4000.

Persons who are deaf, hearing- or speech-impaired may call (517) 636-4999 (TTY) for assistance.

Taxpayers may call the above numbers for automated return information, which is available 24 hours a day, seven days a week. This will ensure that the Alternative Filing staff are able to devote their time to program issues. For verification purposes, the taxpayer must have the tax return information available (i.e., Adjusted Gross Income (AGI), anticipated refund amount, and Social Security number) before inquiring about refund information from the Computerized Return Information System (CRIS).

The taxpayer should wait at least two weeks from the acceptance date of the electronic return before making an inquiry regarding the status of a refund.

SBT taxpayers who do not have Internet service should call the SBT Customer Contact SBT at 517-636-4700.

IRS Publications

To request copies of IRS publications contact:

Forms Distribution Center
P.O. Box 9903
Bloomington, IL 61799

IRS Publications or Questions

To request copies of IRS publications or ask questions, contact the IRS e-help desk at 1-866-255-0654.

3/1/2004

STATE OF MICHIGAN HOLIDAY SCHEDULE

Form 3149 DUE DATES FOR ACCOUNTS ADMINISTERED BY RETURN PROCESSING DIVISION is included in the Appendix for your convenience. Form 3149 contains a list of the holidays observed by the Michigan Department of Treasury.

CHAPTER 2 INCOME TAX

BENEFITS OF INCOME TAX E-FILE

- **Expand services offered.** E-file is a valuable addition to a tax preparer's list of client services which can mean more clients. In addition, prospective clients can find an authorized e-file provider by searching the database on Treasury's Web site.
- **Fast.** Clients receive their refunds in seven business days. Paper-filed returns will take considerably longer. Clients can also choose Direct Deposit and have their refunds deposited directly into their accounts at the financial institution of their choice.
- **Improve return accuracy.** Treasury processes the same data that is entered into the computer. The computer program checks for math errors. If an error occurs on a return, the e-file software sends an error message and allows the tax preparer to immediately correct the mistake before the return is transmitted. There is two-thirds less chance of error compared to a paper return.
- **Increase customer satisfaction.** Only tax preparers and their clients see the returns. Secure transmission over phone lines (not the Internet) ensures confidentiality and provides peace of mind. Also, an acknowledgment is sent to verify that the return was received and accepted for processing.

INTRODUCTION

The Michigan Department of Treasury has joined with the Internal Revenue Service (IRS) to provide for electronic filing (e-file) of income tax returns. The Fed/State e-file Program enables taxpayers to electronically file both federal and state returns through their tax preparers as part of the program's effort to provide "one stop shopping" for tax preparation and filing. The State-Only e-file Program enables taxpayers to electronically file their Michigan return separately from the federal return. Beginning January 16, 2004 the Michigan Department of Treasury will accept electronically transmitted Individual Income Tax returns from all preparers and transmitters who have been accepted in the Fed/State e-file Program.

The Michigan Department of Treasury requires that participants first be accepted into the federal e-file program in order to participate in the Michigan program.

The *Michigan Alternative Filing Programs Handbook for Tax Preparers 2003* (Michigan Handbook) follows the same format as *IRS Publication 1345 Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns* (referred to as *Publication 1345*). The *Michigan Handbook* sets forth those items that are unique to Michigan.

The *Michigan Handbook* should be used in conjunction with *Publication 1345*. Michigan will conform to all requirements, rules, and regulations governing tax preparers set forth by the IRS.

**HIGHLIGHTS AND IMPORTANT INFORMATION
FOR TAX YEAR 2003**

- In an effort to optimize operational efficiency and improve customer service, the Michigan Department of Treasury is planning several tax processing changes for tax year 2003. A major part of this effort is to mandate electronic filing for individual income tax returns beginning in January 2004.

New

Beginning January 1, 2004, tax preparers who complete 200 or more Michigan income tax returns are required to e-file all returns that are supported by their software.

- Tax preparers will no longer need to complete form MI-8633 APPLICATION TO PARTICIPATE IN THE IRS E-FILE PROGRAM to apply to Michigan's e-file program. Once accepted into the IRS e-file program participation in Michigan's e-file program is automatic. See the "Application and Acceptance Process" section for more information.

New

- Now available on Treasury's Web site at www.MIfastfile.org is the new feature **E-file Alerts**. E-file Alerts will provide updates and important information throughout the year. Access this site for handbook updates, status of acknowledgments and important reminders.

New

- State-Only e-file: The Federal return does not have to be e-filed and accepted before e-filing the Michigan State-Only return. However, the federal tax return should be computed before computing the Michigan tax return. (See "Fed/State or State-Only Electronic Filing" section for more information on this program.)
- The income tax rate for tax year 2003 is 4.0%.
- The personal exemption allowance increases from \$3,000 to \$3,100.
- The pension exemptions for 2003 are \$37,710 for a single return and \$75,420 for a joint return.
- The dividend, interest and capital gain exemptions are \$8,408 for a single return and \$16,815 for a joint return.
- The special exemption allowance remains at \$1,900.
- Taxpayers filing one occurrence of form MI-1040H SCHEDULE OF APPORTIONMENT may participate in e-file.

- New forms added for tax year 2003 are:

MI-1040CR-5 FARMLAND PRESERVATION TAX CREDIT CLAIM

SCHEDULE 5 SCHEDULE OF TAXES AND ALLOCATION TO EACH AGREEMENT

MI-1040D ADJUSTMENT OF CAPITAL GAINS AND LOSSES

MI-4797 ADJUSTMENTS OF GAINS AND LOSSES FROM SALES OF BUSINESS PROPERTY

4013 RESIDENT TRIBAL MEMBER ANNUAL SALES TAX CREDIT.

- The farmland credit claim cannot be e-filed if any of the following conditions apply:
 - Taxpayer has more than 25 agreements.
 - Taxpayer is filing for Property Development Rights.
 - Taxpayer has a joint agreement and the apportionment is not equal for all partners

New

Note: If taxpayer has more than 12 agreements listed on Schedule CR-5, the return will be conditionally accepted.

- Schedule W Michigan Withholding Tax Schedule was revised for tax year 2003. However, since Michigan already receives this information as part of the e-file data no changes are required to accommodate this form. The software will need to print Schedule W when supplying the taxpayer a copy of the return.
- Michigan will accept e-file returns for deceased taxpayers. If a federal 1310 is required, that data must be included with the Michigan e-file return.
- Payments for tax due on e-file returns only must be submitted with form MI-1040-V MICHIGAN E-FILE PAYMENT VOUCHER. Payment is due by April 15, 2004. **Prior to the due date, Treasury will send a reminder notice to all taxpayers that have not yet submitted payment. The reminder will include the amount due if paid on or before April 15, 2004.** Do not use form MI-1040-V to make any other payments to the State of Michigan. Payments made with the MI-1040-V should reflect the amount of tax due shown on the return. Overpayments/additional payments should not be made with the MI-1040-V.

Michigan does not participate in an electronic funds withdrawal process for tax due returns. All e-file payments must be mailed to Treasury along with a copy of form MI-1040-V. Do not include a copy of the tax return with the MI-1040-V.

- The acknowledgment for some electronic returns will include status “C” for conditionally accepted. Returns with an acknowledgment status “C” may be delayed in processing. Preparers will not receive subsequent acknowledgments for a conditionally accepted return. A Fed/State Michigan return is only acknowledged once. See “Transmitting the Michigan Electronic Return” section for an explanation of the acknowledgment status codes.
- All 1099 and W2 information, when applicable, is required when submitting a State-Only return. The IRS is no longer accepting 1099G information with an e-filed return. Therefore, the 1099G information will not be required with the e-filed Michigan return.
- Renaissance Zones exist in certain areas of a township, city or county. However, there is no zone that includes an entire township, city or county. Visit the Michigan Economic Development Corporation’s Web site at <http://medc.michigan.org> for more information on Renaissance Zones, or contact the local authority to determine if the taxpayer is eligible for the Renaissance Zone subtraction.
- Taxpayers who are blind and rent their homestead must claim their property tax credit on form MI-1040CR as a totally and permanently disabled person. They are not eligible to claim their credit on form MI-1040CR-2.
- Michigan continues to collect “remote sales” or use tax on the MI-1040 (line 28). Michigan is seeking compliance of this law for two key reasons: ensuring fair competition for Michigan-based companies and protecting the long-term funding base for Michigan’s K-12 education system.
- For two-dimensional (2-D) barcoding, the original return, rather than a photocopy, must be filed. Taxpayers should keep the photocopy and mail the original to Treasury. It may be helpful to mark “COPY” on the client’s copy to eliminate any confusion. For those clients who e-file, this will reduce the number of duplicate returns received where the taxpayer’s return was e-filed and then later mailed in with a barcode.

Michigan, as well as states across the nation, is faced with a budget deficit. As a result of the deficit, resources will not be available to process paper tax returns as timely as in the past. Therefore, beginning with tax year 2003, it will take considerably longer to process paper returns.

- For 2-D barcoding, when making a correction to the return please be sure to reprint the corrected page and the page with the barcode. If the barcode page is not reprinted, the corrected information will not be included in the barcode.
- For 2-D barcoding, the preprinted peel-off mailing label is not required. Using the label could interfere with the barcode scanning.

- For 2-D barcoding, the printer must be capable of printing at the minimum 200 dpi to comply with NACTP standards, but 300 dpi is recommended. Please make sure the printer has adequate toner or ink to produce a clean, readable barcode image.

2-D Barcodes

The Michigan Department of Treasury will accept 2-D barcodes on the MI-1040 and the MI-1040CR-7 HOME HEATING CREDIT CLAIM for tax year 2003. All of the information on the tax return is contained in a single 2-D barcode.

Benefits include:

- Increased accuracy of data capture. Barcode scanning is 100% accurate; data entry errors are eliminated.
- Quicker access to taxpayer data. This is especially important for Treasury's phone staff who can immediately respond to tax preparer and taxpayer questions.
- Fewer calculation errors. The software does the computations.
- Reduced processing, saving Michigan taxpayer dollars.

Check with the software company to see if it will provide 2-D barcodes on Michigan returns. The barcode, which contains the return data, is produced in the upper-right corner of the form when the software prints the document. If the software does not print a 2-D barcode, the space allotted for the barcode will be left blank.

2-D Barcode Content

The 2-D barcode on the MI-1040 will include information from the following forms, if they are a part of the taxpayer's return:

- MI-1040 MICHIGAN INCOME TAX RETURN
- SCHEDULE 1 ADDITIONS TO AND SUBTRACTIONS FROM INCOME
- SCHEDULE NR NONRESIDENT AND PART-YEAR RESIDENT SCHEDULE
- MI-1040CR-5 FARMLAND PRESERVATION TAX CREDIT CLAIM
- MI-1040CR HOMESTEAD PROPERTY TAX CREDIT CLAIM, or

- MI-1040CR-2 HOMESTEAD PROPERTY TAX CREDIT CLAIM OR VETERANS AND BLIND PEOPLE

<p><i>Note: Either MI-1040CR or MI-1040CR-2 may be filed, but not both.</i></p>
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- 4013 RESIDENT TRIBAL MEMBER ANNUAL SALES TAX CREDIT
- SCHEDULE CT COLLEGE TUITION AND FEES CREDIT
- MI-8839 QUALIFIED ADOPTION EXPENSES
- MI-2210 UNDERPAYMENT OF ESTIMATED INCOME TAX
- W-2 Form(s)
- 1099 Form(s)

The 2-D barcode on the MI-1040CR-7 will include information from the CR-7 and the 3174, if they are a part of the taxpayer's filing.

When the following forms are included in a filing, a 2-D barcode can be produced on the MI-1040, even though data from these forms is not included in the barcode.

- MI-1040D ADJUSTMENTS OF CAPITAL GAINS AND LOSSES
- MI-4797 ADJUSTMENTS OF GAINS AND LOSSES FROM SALES OF BUSINESS PROPERTY
- MI-1045 APPLICATION FOR NET OPERATING LOSS REFUND
- SCHEDULE CR-5 SCHEDULE OF TAXES AND ALLOCATION TO EACH AGREEMENT
- 3581 HISTORIC PRESERVATION TAX CREDIT
- 4 APPLICATION FOR EXTENSION OF TIME TO FILE MICHIGAN TAX RETURNS

Mailing Addresses

All computer-generated MI-1040 and MI-1040CR-7 forms (with or without a barcode) should be mailed to the following addresses:

MI-1040

For refund, credit or zero returns, mail the return to:

Michigan Department of Treasury
P.O. Box 30726
Lansing, MI 48909-8226

To pay tax due, mail the return to:

Michigan Department of Treasury
P.O. Box 30727
Lansing, MI 48909-8227

MI-1040CR-7

Mail the MI-1040-CR7 Home Heating Credit claim to:

Michigan Department of Treasury
P.O. Box 30726
Lansing, MI 48909-8226

KEY DATES AND REFERENCE INFORMATION
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Michigan Income Tax Electronic Filing Calendar

For Tax Period January 1, 2003 to December 31, 2003:

Note: These dates are subject to change.

Deadline for Submitting Initial PATS File (Software Developers Only)	October 2004
Electronic Return Acceptance Period	Identical to the IRS
Begin Federal and State Software Testing*	November 2003
Begin Transmitting Returns to the IRS and Michigan Department of Treasury	Identical to IRS

MI-1040-V Payments Due

April 15, 2004

Last Date to File MI-1040CR-7

September 30, 2004

Last Date to Transmit Michigan Returns
Electronically

Identical to IRS

***State testing for software developers will begin after developers have been accepted by the Internal Revenue Service.**

State Program Data

State Contacts

Program Area, PATS Testing,
File Specifications, Record
Layout, and e-file information

Nancy Agostini
Scott Bunnell
(517) 636-4450
(517) 636-4444 (Fax)
MIefile2D@michigan.gov
www.MIfastfile.org

Acknowledgment System

StAck (State Acknowledgment
Service)
235 East Palmer Street
Franklin, NC 28734-3089

(828) 349-5750
(828) 349-5745 (Fax)
sysadmin@state-ack.net
www.state-ack.net

State PATS Testing

State PATS Testing Required
State Test Returns
Number of Scenarios
Electronic Record Specifications:
 Unformatted Record Used
 State Forms Included in Program

Software developers only
Based on 2002 federal scenarios
12
Yes
MI-1040
Schedule 1
Schedule NR
MI-1040CR-5
Schedule CR-5
MI-1040CR
MI-1040CR-2
Schedule CT
MI-1040H
MI-8839
MI-2210
3174 Direct Deposit

	MI-1040CR-7
	4013
	MI-1040D
	MI-4797
Federal Forms and Schedules Required	All
State Standards Adopted:	
Name Standard	Yes
Address Standard	Yes
Acknowledgment Record	58-byte length

State Program Description

Type of e-file Program	Fed/State and State-Only
Number of State Taxpayers	5.5 Million
Number of Fed/State e-file Returns, 2002	1,583,124
E-File Refund Timeframe	7 business days
Paper Refund Timeframe	Considerably longer than previous years
Average State Refund, 2002	\$ 382.08
Direct Deposit	Yes
Electronic Funds Withdrawal	No
Balance Due Returns	Yes
Signature Process	No - Fed/State Yes - State-Only

Publications

The following publications describe the Fed/State e-file process:

Internal Revenue Service Publications and Forms – Handbooks and specifications for the IRS are available at www.irs.gov.

Publication 1345 Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns

Publication 1345A Filing Season Supplement for Electronic Return Originators (Tax Year 2002)

Publication 1346 Electronic Return Specifications and Record Layout for Individual Income Tax Returns

Publication 1436 Test Package for Electronic Filing of Individual Income Tax Returns

Publication 1545 The Electronic Filing Logo Guidelines for Effective Use

Form 8633 Application to Participate in the IRS e-file Program

Form 8453 U.S. Individual Income Tax Declaration for an IRS e-file Return

Form 9325 Acknowledgment and General Information for Taxpayers Who File Returns Electronically

Form 1040-V Payment Voucher

Michigan Department of Treasury Publications and Forms - For more information on the Michigan e-file program, visit www.MIfastfile.org.

Publication 3015 Michigan Alternative Filing Programs Handbook for Tax Preparers 2003

Publication 2538 e-file and 2-D Barcode Software Developer Guide, Michigan Income Tax for 2003

Publication 2842 Michigan e-file Test Package

Form MI-8453 Michigan Individual Income Tax Declaration for Electronic Filing (see “Form MI-8453 Michigan Individual Income Tax Declaration for Electronic Filing” section)

Form MI-1040-V Michigan e-file Payment Voucher (see “Form MI-1040-V Michigan E-file Payment Voucher” section)

Form 3174 Direct Deposit of Refund (see “Direct Deposit” section)

**FED/STATE OR STATE-ONLY
ELECTRONIC FILING**

How Fed/State Electronic Filing Works

Tax preparers and transmitters accepted in the IRS e-file program may participate in the Fed/State e-file Program and file both the federal and state returns together in one transmission to the IRS Service Center. The IRS will acknowledge acceptance of the federal return and receipt of state data. The IRS acknowledgment record will indicate if a state return has been submitted. The state data will then be made available for retrieval by the Michigan Department of Treasury. After the data is retrieved, it will be acknowledged and processed by Michigan.

How State-Only Electronic Filing Works

Tax preparers and transmitters accepted in the IRS e-file program may participate in the State-Only e-file Program. The tax preparer will have to indicate in their software that it is a State-Only filing. The IRS will validate the primary and secondary Social Security numbers against the names and issue an acknowledgment. If the return passes validation, the state data will be made available for retrieval by the Michigan Department of Treasury. After the data is retrieved, it will be acknowledged and processed by Michigan.

Treasury will acknowledge receipt of all returns retrieved from the IRS using the StAck bulletin board system. The transmitter should receive the Michigan acknowledgment within three days from the date the return is successfully transmitted. The mailbox acknowledgment identification information must be entered correctly in the software in order to receive acknowledgments. Michigan cannot post acknowledgments into unidentified mailboxes.

The taxpayer can expect to have a refund check mailed or direct deposited within 7 business days from the date of transmission, provided there are no processing errors or third-party debts owed by the taxpayer. All returns, whether e-filed or paper filed, are subject to Michigan audit, and can be delayed regardless of the acknowledgment code received. Returns are processed and refunds are issued daily.

Taxpayers who e-file returns with tax due are responsible for submitting payment of the balance due on form MI-1040-V by April 15, 2004.

MICHIGAN E-FILE SIGNATURE PROCESS

The Michigan e-file signature process is as follows:

- **For Fed/State Returns:**

Michigan will accept the federal signature (federal 8453 or PIN). Michigan does not require any additional signature documentation. If the taxpayer chooses to complete form MI-8453 MICHIGAN INDIVIDUAL INCOME TAX DECLARATION FOR ELECTRONIC FILING, Treasury recommends that the preparer retain it for six years. **Do not** mail this form to Treasury.

- **For State-Only Returns:**

State-Only returns that are filed by a preparer with or without a Michigan income tax return (MI-1040) can be signed using “shared secrets” or the MI-8453 signature document. The shared secrets consist of the Social Security number(s), previous year’s adjusted gross income (AGI) or household income (HHI), and the previous year’s tax due or refund amount. If the MI-8453 is used, the preparer may retain a copy of the MI-8453. The MI-8453 should not be mailed to Treasury.

Note: *If the return is signed using shared secrets and the return is rejected because the shared secrets do not validate, the taxpayer/preparer may correct the shared secrets information and retransmit. There is no limit on how many times a State-Only return can be retransmitted in this circumstance.*

All 1099 and W2 information, when applicable, is required when submitting a State-Only return. The IRS is no longer accepting 1099G information with an e-filed return. Therefore, the 1099G information will not be required with the e-filed Michigan return.

Who May Participate

E-filing of Michigan returns is available to all electronic filers who have been accepted into the federal e-file program and who transmit returns to an IRS Service Center.

APPLICATION AND ACCEPTANCE PROCESS

To participate in the Fed/State and State-Only e-file Programs, applicants must apply to the IRS by submitting form 8633 APPLICATION TO PARTICIPATE IN THE IRS E-FILE PROGRAM and be accepted. Form 8633 is available from the IRS at 1-866-255-0654, or on the IRS Web site at www.irs.gov.

Publications 1345 and 1345A specify the application process and requirements for federal participation. The definitions used by the IRS of the various categories of electronic filers, electronic return originators (EROs), transmitters or software developers also apply for Michigan e-filing purposes.

Upon receipt of completed form 8633 the IRS Service Center assigns an Electronic Filer Identification Number (EFIN) and, if applicable, an Electronic Transmitter Identification Number (ETIN) to the applicant.

Once accepted in the IRS e-file program participation in Michigan's e-file program is automatic. The Michigan Department of Treasury will use the EFIN assigned by the IRS. Michigan does not assign any additional identification numbers.

New

Note: *Michigan's Web site listing of tax preparers will be automatically updated with information received from the IRS. Contact the Alternative Filing Office at MIefile2D@michigan.gov to be removed from the Web listing or to update information. Please include EFIN and telephone number with the request.*

To participate in the Fed/State and State-Only e-file programs, electronic filers must use software that has successfully completed the IRS and Michigan Participant Acceptance Testing System (PATS). Confirm that the software chosen has been approved for Michigan and that the Michigan e-file program is operational before transmitting returns.

If after acceptance, a preparer/transmitter or software company has production problems, Treasury reserves the right to disapprove that preparer/software company for part or all of the remainder of the filing season.

MICHIGAN PORTION OF THE ELECTRONIC RETURN
--

The Michigan portion of an electronic return consists of data transmitted electronically and the supporting paper documents. The paper documents contain information that cannot be transmitted electronically, such as the taxpayers' signatures.

Electronic Michigan Returns

The following forms and schedules may be e-filed:

- | | |
|-----------------|--|
| • MI-1040 | MICHIGAN INCOME TAX RETURN –
Required for all Fed/State e-file returns ;
not required for State-Only e-file returns. |
| • SCHEDULE 1 | ADDITIONS TO AND SUBTRACTIONS FROM
INCOME |
| • SCHEDULE NR | NONRESIDENT AND PART-YEAR RESIDENT
SCHEDULE |
| • MI-1040CR-5 | FARMLAND PRESERVATION TAX CREDIT
CLAIM |
| • SCHEDULE CR-5 | SCHEDULE OF TAXES AND ALLOCATION
TO EACH AGREEMENT |
| • MI-1040CR | MICHIGAN HOMESTEAD PROPERTY TAX
CREDIT CLAIM |
| • MI-1040CR-2 | MICHIGAN HOMESTEAD PROPERTY TAX
CREDIT CLAIM FOR VETERANS AND BLIND
PEOPLE |
| • MI-1040CR-7 | MICHIGAN HOME HEATING CREDIT CLAIM |
| • SCHEDULE CT | MICHIGAN COLLEGE TUITION AND FEES
CREDIT |

- 3174 DIRECT DEPOSIT OF REFUND
- MI-1040H SCHEDULE OF APPORTIONMENT
(one occurrence)
- MI-1040D ADJUSTMENTS OF CAPITAL GAINS AND
LOSSES
- MI-4797 ADJUSTMENTS OF GAINS AND LOSSES FROM
SALES OF BUSINESS PROPERTY
- MI-2210 UNDERPAYMENT OF ESTIMATED INCOME
TAX
- MI-8839 QUALIFIED ADOPTION EXPENSES
- 4013 RESIDENT TRIBAL MEMBER ANNUAL SALES
TAX CREDIT
- W-2 MICHIGAN WAGE AND TAX STATEMENT
- 1099 form(s)
- Federal forms and schedules.

Important Reminders for Michigan Return Preparation

- Estimated tax payments must be included on MI-1040 line 34. Estimates for taxpayers with income of \$150,000 or more for joint or single filers (\$75,000 or more for married filing separate) must equal 90% of the current year's liability or 110% of the previous year's liability.
- For e-file, the codes for pension subtractions from box 7 of the 1099-R must be included in the federal record information. Distribution Code 1 (Early Distribution) is not an allowable subtraction on the Michigan return.
- For e-file, if the taxpayer has an obligation to file returns in multiple states and the other state does not participate in a joint fed/state e-file program, it is possible that the other state's return can be electronically filed alone, and the federal and Michigan returns would be e-filed together.
- Line 18 (Miscellaneous Subtractions) on the Schedule 1 must include a description of the subtraction. "Miscellaneous or Misc." is not acceptable. Include the federal schedule reference, such as "See U. S. Schedule R, line 19," if applicable.

- Line 7 (Homeowner's Taxable Value) on the MI-1040CR cannot be equal to or less than line 8 (Property Taxes Levied) on the MI-1040CR. Verify with the taxpayer the total taxable value and property taxes paid. Also verify that the appropriate school district code is used.
- Line 9 (Rent paid) on the MI-1040CR is equal to the monthly rent multiplied by 12, **not** the annual rent multiplied by 12.
- Spouse Social Security numbers (SSNs) should not be entered as 999-99-9999. According to the IRS, an individual spouse with no SSN should apply for an IRS Individual Taxpayer Identification Number (ITIN). An ITIN is issued by the IRS for individuals who are required to have a U.S. taxpayer identification number and are not eligible to obtain an SSN issued by the Social Security Administration (SSA).
- Line 9 on Schedule 1 should include compensation received for active duty in the U.S. Armed Forces only. Compensation from the U.S. Public Health Service is **not** considered military pay.
- Verify that total withholding claimed agrees with the total amount withheld on line 33 on the MI-1040.
- The Direct Deposit information for federal and state can be different. This is especially important if there is a Rapid Refund or Refund Anticipation Loan (RAL), and the Michigan refund should not go towards repayment of the loan. Make sure this information is correct for both federal and state refunds. Preparers may want to ask for proof of account from the taxpayer. See page 23 for more information on Direct Deposit.

<p>Important! The Michigan Department of Treasury cannot make any changes to Direct Deposit information after the return is transmitted.</p>

- The student's SSN and school codes must be included on Schedule CT.
- Michigan uses the property tax levied for the year of the claim, not the amount paid during the tax year. For example: use Summer and Winter 2002 taxes for the 2003 claim.

Safeguarding the E-file Program From Abuse and Fraud

All authorized e-file providers must be diligent in recognizing and preventing fraud and abuse in the e-file program. Neither the IRS, Michigan nor the program participants benefit when fraud or allegations of abuse tarnish the integrity and reputation of the program. Providers with problems involving fraud and abuse may be suspended or expelled from participation in Michigan's e-file program, be assessed civil and preparer penalties, or be subject to legal action.

Nonelectronic Portion of Michigan Returns

The nonelectronic Michigan return consists of the following supporting documents:

- Copies of other state's returns for out-state credit. Copies should be retained in the taxpayer's records.
- Form MI-8453. See the "Michigan E-file Signature Process" section of this Handbook for more information on Form MI-8453.
- Form MI-1040-V. If tax is due on an e-file return, the taxpayer must submit payment by check or money order by April 15, 2004 with form MI-1040-V. **Prior to the due date, Treasury will send a reminder notice to all taxpayers that have not yet submitted payment. The reminder will include the amount due if paid on or before April 15, 2004.** If full payment is not submitted by April 15, the taxpayer will receive a bill with applicable penalty and interest. Do not use this form for any other payments to the State of Michigan.

Exclusions From E-file

When the following forms are included, the MI-1040 can be e-filed, but the forms listed below must be mailed.

- MI-1045 APPLICATION FOR MICHIGAN NET OPERATING LOSS REFUND
- 4 APPLICATION FOR EXTENSION OF TIME TO FILE MICHIGAN TAX RETURNS

The taxpayer is not eligible for e-file for the 2003 tax year if:

- Filing returns or forms listed as excluded in *Publication 1345*
- Filing MI-1040 MICHIGAN INCOME TAX RETURN and any of the following apply:
 - Fiscal year filer
 - Prior year return(s)
 - Not required to file a U.S. 1040 if filing Fed/State.
 - Filing MI-1040X AMENDED MICHIGAN INCOME TAX RETURN
 - Filing 3581 MICHIGAN HISTORIC PRESRVATON CREDIT
 - Filing Schedule CR-5 and taxpayer has more than 25 agreements
 - Filing Schedule CR-5 and taxpayer is filing for Property Development Rights
 - Filing Schedule CR-5 and taxpayer has a joint agreement in which the apportionment is not equal for all partners.

DIRECT DEPOSIT

Michigan taxpayers can elect to have their 2003 Michigan income tax refunds directly deposited into their checking or savings account. When filing electronically, Direct Deposit is part of the electronic record.

Direct Deposit is:

- **Convenient**

The refund is deposited directly into the taxpayer's account at the financial institution of his or her choice.

- **Safe**

Refunds made by Direct Deposit are never lost or stolen.

- **Fast**

Direct Deposit gives taxpayers access to their refunds in seven business days.

- **Reliable**

Refunds are deposited electronically, even when taxpayers are on vacation or traveling on business.

- **Confidential**

On average, fewer people will see a taxpayer's account information with Direct Deposit than with paper checks.

The Michigan Department of Treasury will not honor Direct Deposit requests made by persons who owe individual or business taxes or have another state or federal debt that would result in their refunds being offset. This includes third-party debts such as child support, garnishments or levies.

Michigan is not responsible for the misapplication of a Direct Deposit that is caused by error, negligence, or malfeasance on the part of the taxpayer, ERO, transmitter, software developer, financial institution, or any of their agents.

The authorization for Direct Deposit is voluntary and must be renewed yearly.

An electronic filer who functions as an ERO must:

- Ensure the taxpayer is aware of the general information regarding a Direct Deposit.
- Not charge a separate fee for Direct Deposit.
- Accept a Direct Deposit election to the financial institution designated by the taxpayer.

Note: *Some smaller financial institutions may not accept Direct Deposit payments. The taxpayer or ERO should contact the financial institution to verify its capability to accept Direct Deposit transfers.*

- Ensure that a taxpayer electing Direct Deposit meets the eligibility requirements. The taxpayer must provide proof of account from the financial institution that the taxpayer designates to receive the Direct Deposit. This information is best obtained from official financial institution records, account cards, checks or share drafts that contain the taxpayer's name and address. The account must be in the taxpayer's name.
- Verify that the Direct Deposit information on the MI-1040 or 3174 (if a paper filing becomes necessary) is correct and is the information transmitted with the electronic portion of the return.
- Enter the number from left to right and leave unused boxes blank. Include hyphens but omit spaces and special symbols. The Routing Transit Number (RTN) is usually found between these symbols: **Š:** **and** **Š:**. The sample check on the following page shows where the RTN and account number may appear.
- The RTN must be nine digits. If the first two digits are not **01** through **12** or **21** through **32**, the Direct Deposit will be rejected and a refund check will be sent to the address as filed on the return.

John Q. Taxpayer
123 Main Street
Anytown, MI 49111

1800

ANYTOWN BANK
Anytown, MI 49111

|: 2700000065 |: 300000 91 1800

RTN Your account number

Note: *The RTN and account number may appear in different places on your check*

- Ensure that the Direct Deposit of refund for Michigan is not deposited in a Refund Anticipation Loan account for the federal refund.

Important! Advise the taxpayer that once an electronic return has been accepted for processing by the State, the Direct Deposit election cannot be rescinded. The RTN of the financial institution or the taxpayer account number cannot be changed.

If form MI-1040CR-7 is filed it is important that box 4 (Are heating costs included in rent?) be clearly marked either Yes or No. Box 4 should be marked **Yes**, if:

- Heating costs are currently included in rent, or
- Heat service is in someone else's name.

When marked **Yes**, the taxpayer will receive a refund and may choose Direct Deposit instead of receiving a paper check.

If box 4 is marked **No**, a State of Michigan energy draft will be issued. Energy drafts must be redeemed at the taxpayer's utility company; therefore, Direct Deposit is not available.

Problems With Direct Deposit

If Treasury is unable to honor a request for Direct Deposit, a refund check will be mailed to the taxpayer's address on the return. The following are some reasons for not honoring a Direct Deposit request:

- The taxpayer's bank account was closed after the Direct Deposit request was submitted.

- The taxpayer asked to have the refund deposited into a foreign bank or a foreign branch of a U.S. bank. The State of Michigan can only make Direct Deposits to accounts in U.S. financial institutions that are located in the United States.
- If the taxpayer or spouse owes a debt to the State of Michigan or to a third party that is requiring the State to retain all or part of the refund, Treasury must satisfy this debt before issuing the refund. Examples of third party debts Treasury must satisfy include child support arrearages and debts covered by a garnishment served against the refund or credit. If this situation occurs, the taxpayer will receive a letter stating the refund amount and to which debt it was applied. Depending upon the amount of the debt, there could be no remaining refund.
- The financial institution returns the Direct Deposit because an incorrect RTN or account number was entered on the electronic record.

Important! Taxpayers should review their monthly bank statements or contact their financial institutions for Direct Deposit verification. When attempting to locate a Direct Deposit, taxpayers should request that their financial institutions research savings, checking, or other accounts before contacting their tax preparers or the Michigan Department of Treasury.

TRANSMITTING THE MICHIGAN ELECTRONIC RETURN

The ERO, preparer and/or electronic transmitter must follow all electronic transmitting procedures, communication requirements, and technical specifications required by the IRS as defined in *Publication 1345*, to transmit the state electronic return with or without the federal return.

Where to Transmit Fed/State and State-Only Returns

Participants must confirm with their software developers or direct transmitters that the software has been accepted for transmitting the state and federal returns jointly or State-Only returns to the IRS Service Center. Participants should also confirm that the Michigan e-file portion of the software program is operational before transmitting returns.

Important! The mailbox acknowledgment identification (assigned by StAck for some software products) must be included in the proper field locations in both the federal and state records when transmitting returns. If the mailbox acknowledgment identification is not included in the transmission, acknowledgment records cannot be delivered to the transmitter.

Rejection Codes Received From the IRS Service Centers

For Fed/State e-file, the IRS will perform specific consistency checks for the state return that will compare data items in the state generic record to the same data items in the federal tax return. If the data items are not identical, both returns will be rejected. For State-Only e-file, the IRS will validate the primary and secondary Social Security numbers against the names. If the return does not pass validation, it will be rejected. Repeated rejections may cause the IRS to rescind the e-file privileges of an electronic transmitter. Please refer to IRS *Publications 1345* and *1345A* for IRS rejection and error code explanation.

If a federal return is rejected due to errors listed in *Publication 1345A*, the accompanying Michigan return will also be rejected. If the error is one that can be corrected, both return records may be retransmitted to the IRS.

Michigan tax due returns are considered timely filed if the federal and state returns are originally transmitted to the IRS by April 15, 2004. Payments must be postmarked no later than April 15, 2004.

Acknowledgment of Michigan Electronic Returns

The Michigan acknowledgment informs transmitters that the Michigan return data has been received. The Michigan acknowledgment is separate from the federal acknowledgment.

Do not assume that an acknowledgment from the IRS is a guarantee of receipt by Michigan.

Michigan uses the state acknowledgment system operated by TaxNet Governmental Communications, called StAck. StAck (State Acknowledgment Service) provides state acknowledgments for most states participating in the Fed/State e-file Program. Each preparer who selects software that does not provide an acknowledgment mailbox in the software must contact StAck and establish an account for an electronic mailbox through which information can be downloaded to the transmitter's system. This service is available for a nominal annual fee. Please contact StAck for more information at:

StAck (State Acknowledgment Service)	(828) 349-5750
235 East Palmer Street	(828) 349-5745 (fax)
Franklin, NC 28734-3089	sysadmin@state-ack.net
	www.state-ack.net

Under normal processing conditions, the Michigan acknowledgment file is available to a transmitter within three working days of transmission. Transmitters who transmit for ERO's and preparers must notify taxpayers of the Michigan acknowledgment at the time of receipt.

All transmitters should receive a registration packet from StAck. If a transmitter has not received a registration packet by November 1, 2003, contact StAck at the phone number listed above.

Format for Michigan Acknowledgments

Michigan formats an acknowledgment record for each tax return transmitted. The record is 58 characters long and formatted as follows:

<u>Position Number</u>	<u>Description</u>	<u>Field Length</u>
1-4	Size of record	4
5-7	Transmitter mailbox ID	3
8-9	Space	2
10-11	State identification	2
12-22	Declaration Control Number	11
23-31	Taxpayer Social Security number	9
32-34	Julian date accepted	3
35	Acceptance or rejection code	1
36	Space	1
37-39	Status code	3
40-42	Status code	3
43-58	Return sequence number	16

ATTENTION TAX PREPARERS: If transmissions are made through a third party, the acknowledgment record received should contain all fields. Contact the transmitter if the entire record is not received.

Michigan will perform checks for the state return during the acceptance process. All electronically filed returns are subject to Michigan audit and can be delayed regardless of the status code given. Acceptance and rejection codes are defined below.

- A = Electronic return was **accepted**.
- C = Michigan has **conditionally accepted** the electronic return, but it may require manual review which may cause delays in processing and issuance of the refund. This code will be displayed in position 35 followed by one or two three-character status codes. Treasury will not send further acknowledgments for conditionally accepted returns.
- R = The return was **rejected** by Michigan. This code will be displayed in position 35 followed by one or two three-character status codes.

If the Michigan return is rejected, it can be retransmitted as a State-Only return.

The signed MI-8453 may be filed with the paper return **for signature purposes only** if the taxpayer had not previously signed a copy of the paper return. The preparer should then attach the MI-8453 as the last sheet of paper and write on the MI-8453 “for signature only.”

If a taxpayer chooses Direct Deposit and the return is subsequently rejected, he or she must make sure the Direct Deposit information is entered on the MI-1040. Or, if requesting Direct Deposit for a home heating credit refund, complete form 3174 and submit it with the paper return. (*See Appendix for sample form 3174.*)

Treasury offers preparers the following options when Michigan returns are rejected, or if the preparer or transmitter encountered problems during transmission, and the Michigan return or a portion of the return was not transmitted with the federal.

- Michigan return can be retransmitted as a State-Only return.
- If the software does not allow for State-Only e-file, the preparer may fax the Michigan MI-1040 and accompanying attachments to (517) 636-4444.

Michigan Rejection and Conditional Acceptance Status Codes

Michigan’s front-end validation will include the following rejection or conditional acceptance codes:

Rejection Code “R”

<u>Status Code</u>	<u>Form</u>	<u>Field No.</u>	<u>Description</u>
Fed/State Reject Codes			
R-001	MI-1040	0003(.04)	Duplicate return - return already received for this Social Security number.
R-007	MI-1040	0020(.02)	Invalid EFIN.
R-008	MI-1040	0300(.01)	Invalid Mailbox Identification.
R-009	All forms	0300(.03)	Unauthorized Software Developer.
R-900	MI-1040		Incomplete MI-1040 return. No AGI, no taxable income, no withholding, no refund, or tax due.

State-Only Reject Codes (State-Only Indicator Used)

3-15-04

R-500	MI-1040CR-5 Schedule CR-5		MI-1040CR-5 and/or Schedule CR-5 agreement number(s) formatted incorrectly.
R-805	All forms	0305(.05)	MI-1040 not included. Value equals 1 but no MI-1040 exists.
R-810	All forms	0305(.05)	MI-1040 included. Value equals 0.
R-815	All forms	0320(.02) through 0320(.07)	Electronic signature alternative does not pass validation. Correct and retransmit or use the paper signature form MI-8453.
R-820	All forms	0320(.01)	Invalid signature type code.

Fed/State and State-Only Conditional Acceptance Code "C"

<u>Status Code</u>	<u>Form</u>	<u>Field No.</u>	<u>Description</u>
C-016	MI-1040	0315(.03) and 0615	MI-1040 married filing separately and taxpayer is claiming a property tax credit.
C-018	MI-1040CR	1225 and 1230	Household income is less than property taxes and/or rent paid.
C-035	MI-1040	0315(.04) 0315(.05) 0315(.06)	MI-1040 residency status is blank.
C-066	MI-1040CR	1225	Taxable Value is blank and property tax credit is claimed.
C-875	All forms	0049 0320 (.01)	Online State-Only return signed using MI-8453 Signature Code. Refund is expected and no MI-8453 received. Return cannot be processed until MI-8453 is received and processed by Treasury. This does not apply to returns submitted by preparers. Preparers do not need to mail the MI-8453 to Treasury.

1-27-04

C-905	MI-1040CR	0305(.06)	CR code is greater than zero with no amount carried forward to line 30 of the MI-1040. All MI-1040CR's must furnish the following information: <ul style="list-style-type: none"> • Claimed property tax credit amount • Amount of property taxes or rent paid • Household income.
C-915	MI-1040CR	0305(.06) and 0615	CR code is equal to zero but a property tax credit is claimed (MI-1040, line 30).
C-916	Schedule CR-5	6162	Number of Agreements is greater than 12.

FORM MI-8453
MICHIGAN INDIVIDUAL INCOME TAX
DECLARATION FOR ELECTRONIC FILING

For Fed/State e-filed returns Michigan will accept the federal signature (PIN or 8453). Preparers transmitting State-Only filings that do not use the Electronic Signature Alternative must complete form MI-8453. Treasury recommends the preparer retain a copy of the MI-8453 for six years. **DO NOT** mail the MI-8453 to Treasury. See Appendix for sample form MI-8453.

IRS Declaration Control Number (DCN)

Enter the federal DCN in the boxes at the top right corner of MI-8453. The DCN may be PC formatted or handwritten. The first six digits represent the EFIN number of the electronic return originator followed by 5 digits, which represent the document locator number. See example below:

00 - 999999 - 00001 - 4

EFIN
(6 digits)

document
locator
number
(5 digits)

process year

Declaration of Taxpayer

After the return has been prepared and before the return is transmitted electronically, you may want the taxpayer (and spouse, if a joint return) to verify the information on the return and sign and date the MI-8453. The preparer or transmitter must provide the taxpayer with a copy of the form. Preparers and EROs are prohibited from allowing taxpayers to sign a blank MI-8453.

Assembly of Return Information

Assemble the documents in the following order and retain them in the taxpayer's file or give to the taxpayer to retain:

- MI-1040 INCOME TAX RETURN
- MI-1040 SCHEDULE 1
- MI-1040 SCHEDULE NR
- MI-1040CR-5 FARMLAND PRESERVATION TAX CREDIT CLAIM
- SCHEDULE CR-5 SCHEDULE OF TAXES AND ALLOCATION TO EACH AGREEMENT
- MI-1040CR or MI-1040CR-2 HOMESTEAD PROPERTY TAX CREDIT CLAIMS
- SCHEDULE CT COLLEGE TUITION AND FEES CREDIT

Federal forms and schedules

- MI-1040H SCHEDULE OF APPORTIONMENT
- MI-8839 QUALIFIED ADOPTION EXPENSES
- MI-2210 UNDERPAYMENT OF ESTIMATED INCOME TAX
- SCHEDULE W WITHHOLDING TAX SCHEDULE
- 4013 RESIDENT TRIBAL MEMBER ANNUAL SALES TAX CREDIT
- MI-1040D ADJUSTMENTS OF CAPITAL GAINS AND LOSSES

- ## ADJUSTMENTS OF GAINS AND LOSSES FROM SALES OF BUSINESS PROPERTY

Mailing Addresses

MI-1040

Michigan Department of Treasury
P.O. Box 30726
Lansing, MI 48909-8226

Michigan Department of Treasury
P.O. Box 30727
Lansing, MI 48909-8227

MI-1040CR-7

Michigan Department of Treasury
P.O. Box 30726
Lansing, MI 48909-8226

If the taxpayer chooses to complete form MI-8453, Treasury recommends that the preparer retain it for six years. **Do not** mail this form to Treasury.

Follow the federal instructions for mailing the federal 8453.

Corrections to Form MI-8453

If the preparer or transmitter makes changes to the electronic return after the taxpayer has signed the MI-8453 but before the data has been transmitted, the preparer or transmitter must have the taxpayer complete a corrected MI-8453 if the following conditions apply:

- Federal adjusted gross income differs from the amount on the electronic return by more than \$25.
- The Michigan refund changes by more than \$5.

Non-substantive changes are permissible on the MI-8453, provided the preparer or the person making the corrections initials the changes.

<p><i>FORM MI-1040-V MICHIGAN E-FILE PAYMENT VOUCHER</i></p>

Michigan will accept e-file returns with a balance due at any time during the e-file processing season.

Electronic filers must furnish form MI-1040-V to a taxpayer who e-files a return with a balance due. Instructions for completing and mailing form MI-1040-V are located on the form. See Appendix for sample form MI-1040-V.

Preparers must inform taxpayers that payment of taxes due should be made no later than April 15, 2004. **Prior to the due date, Treasury will send a reminder notice to all taxpayers that have not yet submitted payment. The reminder will include the amount due if paid on or before April 15, 2004.** If taxpayers do not make full payment of income tax on or before April 15, 2004, they will receive a bill. The bill will show tax due plus applicable penalty and interest.

<p>Important! To ensure timely posting of payments, use form MI-1040-V only for e-file returns. Do not use form MI-1040-V to make other payments to the State of Michigan.</p>
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<p>RESPONSIBILITIES OF ELECTRONIC FILERS, TRANSMITTERS AND ELECTRONIC RETURN ORIGINATORS</p>

Electronic filers, transmitters and EROs must abide by the terms set forth in the *Michigan Handbook* and must maintain a high degree of integrity, compliance and accuracy in order to continue to participate in the Fed/State and State-Only e-file programs.

Compliance

All electronic filers must comply with the requirements and specifications set forth in *IRS Publication 1345* and *1345A*, *IRS Publication 1346*, the *Michigan Handbook*, and the *e-file and 2-D Barcode Software Developer Guide*, *Michigan Income Tax for 2003*.

Timeliness of Filing

Transmitters must ensure that electronic returns are transmitted timely. The date of transmission to the IRS will be considered the filing date for a Michigan return, providing the return was accepted. If a rejected return is corrected and retransmitted within 2-3 days of the original transmission then the original transmission date is still considered the filing date. For the 2003 tax year, tax due returns will be considered timely filed if the original federal and Michigan returns have been transmitted on or before April 15, 2004.

Transmitters should confirm that Michigan has issued an acknowledgment of the state return before considering the state filing complete.

Deadline for Filing

The Michigan Department of Treasury will accept electronically filed Michigan returns originally submitted to the IRS by October 15, 2004. Preparers wishing to file Michigan returns after October 15, 2004 must file on paper.

Preparers' Responsibility to Clients

Preparers have been entrusted with the task of filing a client's tax return and must assume the responsibility of ensuring the return arrives at the Michigan Department of Treasury. In the event the e-filed state return fails to arrive or is rejected and cannot be retransmitted, preparers must notify their clients to file a paper return.

Changes on the Return

If corrections must be made once the return has been accepted and acknowledged, the taxpayer must file an MI-1040X AMENDED MICHIGAN INDIVIDUAL INCOME TAX RETURN on paper.

Acknowledgment of the Michigan Return

Direct transmitters are required to have access to the Michigan acknowledgment system through StAck (State Acknowledgment Service).

Once the Michigan Department of Treasury has acknowledged an electronic return, transmitters are required to notify their EROs of acceptance within five working days.

Transmitters and EROs must advise taxpayers to wait at least two weeks from the date of the acknowledgment before calling a Department representative. See “Transmitting the Michigan Electronic Return” section regarding information on the Acknowledgment Process.

Treasury will discuss any inquiries regarding a return with errors with the taxpayer or agent who has a power of attorney on file for the year in question.

CHAPTER 3

SINGLE BUSINESS TAX

BENEFITS OF SBT E-FILE

- **Fast.** SBT e-file returns will be processed much faster than paper returns. Paper-filed returns will take considerably longer to process.
- **Convenient.** No more paper returns to mail. Prepare and transmit SBT returns using software that has been approved by the Michigan Department of Treasury.
- **Accurate.** Treasury processes the same data that is entered into the computer. The computer program checks for math errors before the return is accepted. E-file returns have significantly less chance of error compared to paper returns.
- **Secure.** Only the preparers and their clients see the returns. When the Internet application is used to e-file SBT returns, the client's confidential information is protected by Secure Socket Layer (SSL) 128-bit encryption.
- **Quick Confirmation.** Michigan sends an electronic confirmation that the SBT return was accepted for processing within 1-2 business days.
- **Customer Service.** Receive electronic proof that returns were received.

INTRODUCTION

The Michigan SBT e-file Program was developed to provide Michigan taxpayers with the opportunity to use Internet technology to file Single Business Tax Returns that were prepared using a computer software program.

Software developers have been advised that beginning with tax year 2003, all SBT returns prepared with software must be e-filed through Michigan's Internet portal. Therefore, if SBT returns are prepared using a computer software program, all eligible returns that are supported by the software program must be filed.

Treasury is committed to processing SBT e-file returns in less than half the time of paper returns, and account resolution for SBT e-file returns will receive priority over paper returns.

HIGHLIGHTS AND IMPORTANT INFORMATION FOR TAX YEAR 2003

- In an effort to optimize operational efficiency and improve customer service, the Michigan Department of Treasury is planning several tax processing changes for tax year 2004. A major part of this effort is to mandate electronic filing for SBT returns beginning in January 2004.
- Now available on Treasury's Web site at www.MIfastfile.org is the new feature **E-file Alerts**. E-file Alerts will provide updates and important information throughout the year. Access this site for handbook updates, status of acknowledgments and important reminders.
- Beginning with the 2003 tax year SBT annual returns requiring payment will be eligible for e-file. There will be two payment options available for those returns requiring payment.
 1. **Electronic Funds Transfer (EFT) for SBT Annual Payments.** See "Payment Options" section of this chapter for more information regarding the EFT payment process.
 2. **Paper Payment Voucher.** If taxpayer chooses to mail his/her payment, he/she must include form SBT-V SBT E-FILE ANNUAL RETURN PAYMENT VOUCHER with the payment.

For more information and program updates, visit Treasury's Web site at www.michigan.gov/sbtefile.

- Registration changes (name, address, phone number, filing date, discontinuance date, etc.) must be made by calling (517) 636-4660 or submitting form 163 NOTICE OF CHANGE OR DISCONTINUANCE, which is available on Treasury's Web site at www.michigan.gov/treasury.
- Returns filed as an individual organization type must be filed with a TR number or FEIN in place of the SSN. E-filed returns using the SSN will be rejected.
- The tax rate for the calendar year ending 2003 is 1.9%. Treasury does not expect the rate to change for 2004. The 2004 rate should be available in December 2003.

Legislative Changes

Gross Receipts Redefined, PA 606 of 2002. For tax years beginning on or after October 1, 2003, additional exclusions apply. For a list of the additional exclusions, see the Single Business Tax Forms and Instructions, Gross Receipts Checklist on page 18.

Compensation Redefined, PA 603 of 2002. For tax years beginning after December 31, 2003, compensation paid by a professional employer organization to the officers and employees of an entity whose employment operations are managed by the professional employer organization are considered to be compensation in the tax base of the professional employer organization.

The term “professional employer organization” is defined as an organization that provides the management and administration of the human resources and employer risk of another entity by contractually assuming substantial employer rights, responsibilities and risk through a professional employer agreement. The agreement establishes an employer relationship with the leased officers or employers assigned to the other entity by: (1) maintaining the right of direction and control of employee’s work, although this responsibility may be shared with the other entity; (2) paying wages and employment taxes of the employees out of its own accounts; (3) reporting, collecting and depositing State and Federal employment taxes for the employees; and (4) retaining the right to hire and fire employees.

Penalties Amended, PA 657 of 2002. The penalty for failure to remit a tax with a negotiable remittance is changed from 50% of the tax due to 25%. The revised penalty for failure or refusal to file a return or pay a tax within the time specified is 5% of the tax due. The penalty increases by an additional 5% per month, or fraction thereof, after the second month, to a maximum of 25%. Additionally, the bill eliminated a penalty for failing to file during a tax amnesty period.

New/revised credits. New credits for tax years beginning after 2002 are the Next Energy Payroll and/or Business Activity Credit and the Pharmaceutical Credit. Revisions were made to the Renaissance Zone Credit and the Brownfield Credit. For more information on these and other credits, see the Single Business Tax Forms and Instructions and form C-8000MC SBT MISCELLANEOUS CREDITS on page 49. SBT forms and instructions are available on our Web site at www.michigan.gov.

KEY DATES AND REFERENCE INFORMATION
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Michigan Single Business Tax Electronic Filing Calendar

For Tax Period January 1, 2003 to December 31, 2003:

Deadline for Submitting SBT e-file New Application (Profile)	None (Software Developers and Transmitters Only)
Begin Software Testing for 2003	Mid-Late October 2003
Begin Transmitting Returns for 2003	Late January 2004

SBT e-file unavailable due to
system maintenance (test returns may still be submitted)

January 12-25, 2004

State Program Data

State Contacts

Program Area, Testing,
File Specifications, Record
Layout, e-file information and
Acknowledgment System

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(517) 636-4450
(517) 636-4444 (Fax)
Mlefile2D@michigan.gov
www.MIfastfile.org

SBT Testing

SBT Testing Required

SBT Test Returns
Number of Scenarios
Electronic Record Specifications:
SBT Forms Included in Program

Software developers and
transmitters
Available on secure Web site
8

XML format
C-8000
C-8044
C-8030
C-8010AGR
C-8000C
C-8043
C-8000H
C-8000ITC
C-8000D
C-8000G
C-8000KC
C-8000KP
C-8000S
C-8009
C-8020
C-8020WS
Form 3307

Federal Forms and Schedules

Optional

Note: If it becomes necessary to supply Treasury with a paper copy of the return and the supporting documents, it must be assembled as noted above.

Acknowledgment Record

XML file format

State Program Description

Type of e-file Program	SBT Internet Portal
Number of SBT Taxpayers	273,274
Paper Refund Timeframe	Considerably longer than previous years
Direct Deposit	No
Electronic Funds Withdrawal	Yes
Balance Due Returns	Yes
Signature Process	Electronic Signature Alternative using a Treasury-assigned Customer Service Number (CSN) and shared secrets

Publications

3919	<i>SBT e-file Specifications and Software Developer Guide</i>
3920	<i>SBT e-file Test Package for Software Developers</i>
3921	<i>SBT e-file Transmitters' Handbook</i>
3015	<i>Michigan Alternative Filing Programs Handbook</i>
MI-8633	SBT e-file New Application (Profile)
4055 SBT-V	SBT e-file Annual Return Payment Voucher

ELECTRONIC FILING

How SBT E-file Works

A computer with Internet access and tax preparation software is needed to e-file. The software will need to be purchased and installed.

Returns can be transmitted directly to Treasury or the software provider may be able to transmit the returns. Contact the software company to determine which transmission capabilities are offered before purchasing the software. The software company may charge an additional fee to transmit the returns.

If transmitting directly to Treasury, an application must be submitted to Michigan to be a transmitter and complete the transmitter testing process. For more information visit Treasury's Web site at www.michigan.gov/sbtefile. See "SBT E-file Application (Profile) and Acceptance Process" section of this chapter for information regarding the SBT e-file Application (Profile).

Note: *If sending returns to a software developer who will in turn transmit them to Treasury, it is not necessary to apply to be a transmitter.*

Returns will be signed using an electronic signature composed of the following shared secrets:

- Business FEIN
- Gross receipts or adjusted gross receipts from the most recently filed original SBT return
- Treasury-assigned CSN.

Treasury will provide all active SBT taxpayers who have filed form C-8000, C-8030 or C-8044 in the last two years with their CSN in time to file their SBT return(s) in January 2004. *The CSN is eight digits comprised of one alpha character and seven numbers. The letters "I" and "O" are not used.*

3-29-09

Treasury will provide two types of acknowledgments. The first is a confirmation that the file transmission was successful. This confirmation is issued almost immediately after the transmission is complete. The second is an acknowledgment for each individual return record included in the file. This acknowledgment is available within 1-2 business days after successful transmission of a file.

Confidential information is protected by Secure Socket Layer (SSL) 128-bit encryption.

Who Can E-file

Beginning with tax year 2003, software developers are required to support all SBT returns that are eligible for e-file. If preparers use computer software to prepare SBT returns, they must e-file all eligible returns that are supported by the software.

The following 2003 forms are eligible for SBT e-file:

C-8000	SBT ANNUAL RETURN
C-8000C	SBT CREDIT FOR SMALL BUSINESSES AND CONTRIBUTION CREDITS
C-8000D	SBT RECAPTURE OF CAPITAL ACQUISITION DEDUCTION
C-8000G	SBT STATUTORY EXEMPTION/BUSINESS INCOME AVERAGING
C-8000H	SBT APPORTIONMENT FORMULA
C-8000ITC	SBT INVESTMENT TAX CREDIT

C-8000KC	SBT SCHEDULE OF SHAREHOLDERS AND OFFICERS
C-8000KP	SBT SCHEDULE OF PARTNERS
C-8000S	SBT REDUCTIONS TO ADJUSTED TAX BASE
C-8009	SBT ALLOCATION OF STATUTORY EXEMPTION, STANDARD SMALL BUSINESS CREDIT, AND ALTERNATE TAX FOR MEMBERS OF CONTROLLED GROUPS
C-8010AGR	SBT ADJUSTED GROSS RECEIPTS FOR CONTROLLED GROUPS
C-8020	SBT PENALTY AND INTEREST COMPUTATION FOR UNDERPAID ESTIMATED TAX
C-8030	SBT NOTICE OF NO SBT RETURN REQUIRED
C-8043	SBT STATUTORY EXEMPTION SCHEDULE
C-8044	SBT SIMPLIFIED RETURN
3307	SBT LOSS ADJUSTMENT WORKSHEET FOR THE SMALL BUSINESS CREDIT

Information from the following 2003 federal forms may be included when filing the C-8000, C-8044 or C-8030:

U.S. 1120 and Schedules A and E (Corporations)
U.S. 1120A (Corporations)
U.S. 1120S and Schedules A, D and K (S-Corporations)
U.S. 1040 and Schedules C, D and E (Individuals)
U.S. 1065 and Schedules A and K (Partnerships)
U.S. 1041and Schedule D (Fiduciaries)
U.S. 4797, Sales of Business Property
8825, Rental Real Estate Income and Expenses of a Partnership
or S Corporation

SBT e-file is not available to taxpayers who:

- Have not previously filed a paper SBT return with Treasury, or
- Filed the following form(s):

C-8022 *SBT FARMLAND PRESERVATION TAX CREDIT*

C-8000X SBT AMENDED RETURN

3-8-04

C-8008 *SBT AFFILIATION SCHEDULE-CONSOLIDATE FILING*

C-8044X SBT AMENDED SIMPLIFIED RETURN

C-8000MC SBT MISCELLANEOUS CREDITS

4 APPLICATION FOR EXTENSION OF TIME TO FILE
MICHIGAN TAX RETURNS

1366 INSURANCE COMPANY ANNUAL RETURN FOR SBT
AND RETALIATORY TAX

- Returns for years 2001 and before
- Returns requiring payment for 2002

When SBT Returns Can Be E-filed

SBT returns for 2003 can be e-filed beginning in late January 2004. Treasury will continue to accept SBT e-file returns not requiring payment for 2002. SBT returns for years prior to 2002 are not eligible for e-file.

SBT E-FILE APPLICATION (PROFILE) AND ACCEPTANCE PROCESS

An organization or individual interested in participating as a transmitter or software developer must submit an SBT e-file New Application (Profile) request to Treasury. To complete the application process, please visit Treasury's Web site at www.michigan.gov/sbtefile. Applications are processed within 1-2 business days. An acceptance letter containing usercode and password to e-file SBT return(s) will be mailed within one week. It is the recipient's responsibility to keep this information secure. Applications may be submitted at any time throughout the year.

Note: *If sending returns to a software developer who will in turn transmit them to Treasury, it is not necessary to apply to be a transmitter.*

In future years, **continuing participants** who have been previously accepted by Michigan do not need to resubmit an application. If there is a change in the information on file, participants should submit the updated information by using the Update Profile screen on the secure Web site.

Failure to apply will preclude transmitters from participating in the program.

TRANSMITTING THE SINGLE BUSINESS TAX ELECTRONIC RETURN

The ERO, preparer and/or electronic transmitter must follow all electronic transmitting procedures, communication requirements, and technical specifications required by the Michigan Department of Treasury as defined in the *Michigan Single Business Tax Transmitters' e-file Handbook* (form 3921).

ACKNOWLEDGMENT PROCESS

First Acknowledgment (File Acknowledgment)

Treasury will provide two types of acknowledgments. The first is a confirmation that the file transmission was successful. This confirmation is issued almost immediately after the transmission is complete. If a transmission is rejected, the transmitter will receive a message back from Treasury identifying the first error encountered in the file transmission. The transmitter should correct and retransmit the file. Transmitters will need to retransmit the file until it clears the schema validation.

Second Acknowledgment (Return Acknowledgment)

The second is an acknowledgment for each individual return record included in the file. This acknowledgment is available within 1-2 business days after successful transmission of a file.

Treasury will perform certain checks on the return during the acceptance process. All returns, whether e-filed or paper-filed, are subject to Michigan audit, and can be delayed regardless of the acknowledgment code given. The acknowledgment codes are as follows:

ACC Electronic return was **accepted** and will be reviewed and processed.

REJ Electronic return was rejected. Rejections other than duplicates can be corrected and retransmitted to Treasury.

Rejection Codes

<u>Rejection Code</u>	<u>Form</u>	<u>Description</u>
10	C-8000 C-8044 C-8030	Duplicate return - return already received by Treasury.
20	All forms Developer	Unauthorized Software
30	C-8000 C-8044 C-8030	Electronic Signature Alternative is invalid
40	C-8000 C-8044 C-8030	Return filed on wrong year form.
50	C-8030	For tax year 2002 adjusted gross receipts on C-8030 must be less than \$250,000.

PAYMENT OPTIONS

Michigan will accept e-file 2003 SBT returns with a balance due at any time during the e-file processing season. There will be two payment options available for those returns requiring payment:

1. **Electronic Funds Transfer (EFT).** Information on the EFT process as well as the EFT Debit Application (form 2248) and EFT Credit Application (form 2328) are available on Treasury's Web site at www.michigan.gov/biztax/payments

If currently submitting SBT estimates by EFT, complete form 2439 NOTICE OF ADDITION OR CHANGE OF TAX TYPES/BANK CHANGE to add the tax type code for making an SBT annual payment. Please fax the completed application or form 2439 to (517) 636-4356.

Note: *Payments must be transmitted by 4:00 p.m. EST one business day prior to the due date to be accepted as timely.*

2. **Paper Payment Voucher.** If the taxpayer chooses to mail the payment, he/she must include form SBT-V with the payment.

Electronic filers must furnish form SBT-V to taxpayers choosing to mail their payment on a balance due return. Instructions for completing and mailing the form SBT-V are located on the form.

<i>RESPONSIBILITIES OF TRANSMITTERS AND ELECTRONIC RETURN ORIGINATORS</i>
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Electronic filers, transmitters, and ERO's must abide by the terms set forth in the *Michigan Handbook* and must maintain a high degree of integrity, compliance and accuracy in order to continue to participate in the Alternative Filing Programs.

Electronic Return Originator (ERO) or Preparer

An ERO is the person or firm that constructs the return information for the taxpayer for the purpose of electronically filing a tax return. ERO's or preparers do not need to submit an application to participate in Michigan's SBT e-file program.

Transmitter

A transmitter is the business or individual that submits the electronic return data to Treasury. Software developers, tax preparers, businesses and individual taxpayers can all be transmitters. To be a transmitter:

- Submit an SBT e-file New Application (Profile) request to Treasury
- Pass the Treasury qualifications review and be accepted.

<i>Note:</i> <i>If sending returns to a software developer who will in turn transmit them to Treasury, it is not necessary to apply to be a transmitter.</i>

For more information, see the *Michigan's Single Business Tax Transmitters' e-file Handbook*.

Program Compliance

Treasury will ensure transmissions are in compliance with the requirements outlined in this publication and the *SBT e-file Specification and Software Developer Guide*.

If, after acceptance, a transmitter/software developer has production problems, Treasury reserves the right to suspend that transmitter/software developer until the problems are resolved to Treasury's satisfaction.

Changes on the Return

Once the return has been accepted and acknowledged, the taxpayer must file form C-8000X SBT AMENDED RETURN or C-8044X SBT AMENDED SIMPLIFIED RETURN on paper.

APPENDIX

MI-8453 Michigan Individual Income Tax Declaration for e-file

MI-1040-V Michigan Payment Voucher for Electronic Filing

Form 3149 Due Dates for Accounts Administered by Return Processing Division

Form 3174 Direct Deposit of Refund

2003 Income Tax Forms

2003 Business Tax Forms